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Case 15922

June 54

Guatemala

Improbability that Arms were Bought for Cash/
Activities of Ayau and Toriello/Minor Keilhauer's
Relations with Arbens/Criticism of United Fruit Co.

June 54 and earlier

BEST AVAILABLE COPY

June 54 and earlier

US citizen, an exporter and manufacturers agent.

He does an extensive business in Guatemala, which he visits several times a year. Most of his contacts on such trips are ultra-conservative rightist Guatemalans. He was formerly on intimate terms with the Arbens family, but the relationship has deteriorated to one of rather frigid formality since source openly criticized Arbens' dependence on the communists. Source is a close personal friend of Minor Keilhauer and is financially interested in some of Keilhauer's business ventures. He knows many members of the Guatemalan cabinet quite well and has handled financial transactions for several of them. He is fluent in Spanish.

1. I think it is highly probable that the arms shipment from Poland to Guatemala was either an outright gift or a sale on credit. I say this because I do not think it possible for the Guatemalan government to have raised US\$10 million in cash, which is the reported price of the arms, or any substantial fraction of that sum.
2. About one year ago, I participated in the awarding of a contract to a US construction firm for the building of a new port of Santo Tomas. The price of the work was US\$5 1/2 million, and the US construction firm refused to begin operations until the entire contract price was deposited in US currency in a California bank. This insistence on cash in advance nearly wrecked the deal, not because the Guatemalan officials had any doubts concerning the soundness of the US company or its ability to fulfill the contract, but simply because the officials did not know where to find the money. Finally, by dint of straining every resource, the money was raised and was deposited. Since that time conditions have deteriorated in Guatemala from a financial standpoint, the government has overspent its budget and its credit has been seriously impaired. I do not believe that there is any very great possibility that the Guatemalan government at this time could raise US\$10 million or any sizable part of it, and I therefore believe that a nominal sum, at most, was paid to the vendors of the arms. It is entirely within the realm of possibility that the arms constitute a gift.

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10. At the same time, Zeilbauer is not a free agent from the financial standpoint. Everything that he owns is pledged to INPCF. If he should decide to break with Arbenz, he knows that INPCF would immediately foreclose and that no other bank would lend him enough money to tide him over. His assets are definitely worth saving. His plantation has been converted from citrons to sugar cane, and during the past crop year he grew over 90 thousand tons of cane, which netted him a profit of over US\$600 thousand. If he can stave off financial pressure for a long enough time, he will ultimately pay off his obligations and emerge again as a wealthy man. Obviously, in the meantime, he is in no position to break with Arbenz or to indulge in drastic criticisms of Arbenz' associates. Still he manages to have as little as possible to do with Fortuny, Pellecer and the other Communist leaders.

11. The conservative rightist elements in Guatemala are now giving lukewarm support to the United Fruit Company, simply because they are allies in their opposition to the Arbenz regime. The UFCo is very generally disliked and distrusted by Guatemalans of all classes because of the company's exploitation of the country and its abuse of its monopoly as a carrier. For example, of the latter point, it costs approximately US\$600 to ship an automobile from New Orleans to Puerto Barrios by a UFCo boat. The same automobile can be shipped to Barcelona or to Cherbourg for approximately US\$300. Another instance: large quantities of cement are being used in the construction of the new port at Santo Tomas. The US construction company intended to purchase the cement from a plant located near Guatemala City and owned by one of the more prominent Guatemalan families. Before bidding, officials of the cement plant consulted officials of the International Railways and were told that the freight on the cement from Guatemala City to Puerto Barrios would be US\$0.50 per sack. This freight charge raised the cost so prodigiously that the US construction company found it cheaper to import cement from Italy.
12. The wealthier people in Guatemala bitterly resent the prices which they have to pay for imported articles and realize that a large item in the cost of such articles is the outrageous freight charged by the Fruit Company and the IECA. Many of them are shocked at the efforts of the US Government to help the Fruit Company collect its US\$15 million claim for the expropriated lands. They point out that the latter are virtually worthless and that, according to the values fixed by the company itself on the lands for bookkeeping and taxation purposes, their value was a small fraction of the amount which the company is now claiming.
13. In the past there have been three factions in Guatemala: the Arbenz supporters, the conservative rightist oligarchy and the United Fruit Company. The rightist group tends now to support the company to some extent, merely because they think that the Fruit Company, through its influence with the US Government, may achieve some success in getting rid of the Arbenz regime. This support is, however, halfhearted and temporary, and not too much reliance should be placed on it. If the Fruit Company and Arbenz should arrive at a satisfactory modus vivendi, the rightists would return to their original position of opposition both to the Fruit Company and to the government.

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3. Jorge Toriello and Rafael Ayen have been in the US for two weeks in May and June 1954 for the purpose of arranging the purchase of approximately US\$7 million worth of heavy electrical machinery and equipment from a US manufacturer. I have not yet obtained details of the transaction which they are trying to bring to pass, but I am astonished at the amount involved. At the present time, the value of all of the electrical machinery in Guatemala is considerably less than US\$7 million, and I can see no legitimate reason why machinery of that value should be needed or could be advantageously used in Guatemala. As some indication of the value of existing facilities, I cite the sale within the last 30 days of the entire electrical system of Puerto Barrios, Guatemala, for the sum of US\$50 thousand.
4. Neither Toriello nor Ayen has publicly admitted the purpose of their trips. Toriello has ostensibly been promoting an international fair to be held in Guatemala during the fall of 1954. Ayen has given out that he is seeking to purchase a yacht for President Arbenz. These are merely cover stories.

5. One of the closest business and financial advisers to Arbenz is Miguel Kailhauer, a very close friend of mine. I have often been asked how it is that Kailhauer, who is a capitalist by tradition and training, can remain so close to the Communist-infested Arbenz regime. The answer is twofold: Kailhauer has a feeling of deep personal affection for and loyalty to Arbenz and, in addition, he is caught in a financial vise.
6. There is no doubt about Kailhauer's capitalistic tradition and conviction. His father emigrated to Guatemala from Alsace and made three fortunes, two of which he subsequently lost before his death a few years ago. He was an intimate of Minor Keith, at that time President of the United Fruit Company, and the younger Kailhauer was named "Minor" in Keith's honor. A part of the family's fortunes were obtained from lead mining operations and associated in such operations were such internationally famous figures as Herbert Hoover and Edward Stettinius.
7. Minor Kailhauer made about US\$6 million during and shortly after World War II as the world's leading supplier of oil of citronella. In the past, citronella was largely produced in the Dutch East Indies and, when the Indies were overrun by the Japanese, Kailhauer controlled the majority of the available world supply. The price of the product rose to US\$5 per pound and Kailhauer profited enormously. After the war, when the Dutch East Indies again began to supply the world demand, the price declined to less than US\$0.50 per pound, which is less than Kailhauer's cost of production. He was operating a large plantation with approximately six thousand employees, and under the labor laws of Guatemala he was unable to do very much about reducing the size or the cost of his operations.
8. Moreover, in the meantime, he had expanded into other lines of endeavor, notably a mill for the manufacture of paper. The mill was originally supposed to cost US\$250 thousand but, due to miscalculations of the engineers and other factors, the ultimate cost was more than US\$1,600,000. In order to finance the construction of the mill and other projects, Minor Kailhauer was forced to mortgage everything he possessed. The drop in the price of citronella caught him at his most extended time, and he was faced with imminent bankruptcy and the loss of everything he possessed.
9. At that point Arbenz, who had newly come to power, arranged for INEOP to bail Kailhauer out. The bank, on Arbenz's direct written order, extended virtually unlimited credit to Kailhauer, and he was able to retain control of his various properties. Kailhauer is immeasurably grateful to Arbenz for this financial rescue. He realizes that but for Arbenz's intervention, he would have lost everything, and this feeling of gratitude and loyalty causes him to overlook the Communist ties which Arbenz has formed.

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